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SUBJECT: ECONOMIC GROWTH OF BELGIUM'S WALLOON REGION  
REMAINS ON POLITICAL AGENDA

[¶1.](#) (U) Summary. One of the issues Belgian politicians are grappling with as they form a new government is how to craft economic policies given the differences between the economies of Wallonia and Flanders. As Wallonia's top investor, the United States has an interest in the overall economic health of the region. The good news is that the Walloon economy is growing, foreign direct investment has increased along with job creation, six-year unemployment figures are down, and exports and median income are up. The bad news is that Wallonia still lags significantly behind Flanders in net income and overall GDP, and it continues to suffer from high unemployment. To keep the economy growing, Wallonia needs to improve its public governance, human capital development, labor market, and above all its entrepreneurial spirit. End Summary.

#### The Good News

[¶2.](#) (U) The Walloon economy appears to be picking up momentum, according to reports in the economic press and government statistics. Trends-Tendances announced that Wallonia enjoyed a 58% boost in foreign direct investment in 2006. Foreign direct investment totaled 1.2 billion euros, including 746 million euros spent creating new businesses. These investments resulted in 1,912 new jobs.

[¶3.](#) (U) Several American businesses recently invested in Wallonia: Google in Saint-Ghislain; Dolce in La Hulpe; Johnson & Johnson in Courcelles; and Baxter in Lessines. According to the daily business paper, L'Echo, U.S. investment accounts for 40 percent of all FDI in Wallonia, which makes it the region's primary investor. In fact, U.S. investment is twice that of France. Currently, 200 U.S. businesses account for 20,000 jobs in the region.

[¶4.](#) (U) Oxford Intelligence reports that of the 185 new investments in Belgium in 2006, Wallonia captured 25% of them. In its ranking of European regions that are most attractive to foreign investors (in terms of new investment projects), the province of Hainaut, in Wallonia, ranked 28th in 2006, with 22 new projects. This is a significant improvement over 2005, when it ranked 40th. Only one Belgian city, Antwerp, made it into the top 10 in 2006, while Brussels ranked 21st.

[¶5.](#) (U) In terms of unemployment and exports, in March 2007, Wallonia had 8,000 fewer people unemployed than at that time a year ago. Between 2000 and 2006, 11,370 jobs were created, with 1,624 created on average each year from foreign investment. Trends-Tendances reports that Wallonia

now accounts for a greater percentage of Belgian exports as well. From 2001 to 2005, Wallonia's level of exports grew from 15% to 18% of total Belgian exports.

¶16. (U) Wallonia's economic growth and median income are also on the rise. In 2003 and 2004, Walloon economic growth surpassed that of Flanders by 0.5%, according to the ICN (National Accounts Institute) and the UWE (Union of Walloon Enterprises). In 2005, economic growth took a slight dip, but is expected to rebound in 2006 and reach the level of economic growth in Flanders. According to the Federal Public Service Economy (equivalent to a ministry of economy), 2004 also saw the median income of Walloon residents increase by 5.5%, compared to 4% in Flanders.

¶17. (U) 2007 is projected to be even better. The industries that enjoyed the greatest gains in 2006 were pharmaceuticals, chemicals, energy, logistics, information technologies and telecommunication.

#### The Bad News

¶18. (U) While Wallonia is clearly in a period of economic growth, it is starting from a lower base than economically dominant Flanders. Net income is approximately 1,600 euros greater in Flanders than in Wallonia, not surprising since the GDP of Flanders continues to be 37% greater than that of Wallonia. The number of jobs created per new investment lags behind the rest of Belgium and much of Europe. According to Trends-Tendances, only 20 jobs were created per project on average in Wallonia, compared with an average of 47 per year in Belgium and 95 per year in 15 other European countries.

¶19. (U) Unemployment persists, and only 36% of Walloon

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businesses say that they will increase their recruitment in the coming months, according to a UWE (Union of Walloon Enterprises) survey. This is a 2% decline compared to the same number in November of 2006. The reason is that 94% of companies report difficulties in hiring. The first problem is that there are not enough job-seekers with the qualifications that Walloon businesses are looking for. Two employment firms stress that the comfortable unemployment package offered in Wallonia means that it is not worthwhile for most people to accept a job unless it pays in the middle range of salaries. Employment agencies and companies themselves often must recruit in northern France, where unemployment benefits have limits, in order to fill jobs. Other problems relate to the cost of hiring and a candidate's motivations for the job.

¶10. (U) Furthermore, optimistic economic forecasts are not causing leading Walloon entrepreneurs to increase their investments. The percentage who reported that they wanted to invest more in the next six months decreased from March 2006, according to the UWE. In addition, many Walloon companies seem to be limiting their exports to northern France and Western Germany, rather than trying to expand their goods into other markets.

¶11. (U) Ironically, while Wallonia suffers from high unemployment, Flanders has a labor shortage. Jobs in Flanders are being filled by workers in neighboring France, rather than Wallonia. French workers drive over 62 miles each day to work in the Flemish cities of Ypres and Kortrijk, according to Philippe Donnay, Economic Advisor at the Federation of Enterprises in Belgium.

¶12. (U) The two regional authorities have tried unsuccessfully to create incentives to encourage labor mobility between the regions. One of the reasons is that the labor market is too rigid. A worker changes jobs every 12 years, on average. High unemployment also highlights this rigidity. Second, cooperation between the regions on

this issue is in its infancy. While job placement agencies in each region have been exchanging employment opportunities for one or two years, labor markets have been regionalized for more than twenty. As a result, businesses in Flanders may have needs in areas that cannot be met by unemployed workers in Wallonia. Third, many unemployed workers lack the proper education and training for many jobs in today's labor market, and at the same time, the competencies needed in many fields are changing rapidly. Fourth, the gap between social welfare benefits and salaries is too small to encourage unemployed workers to look for a job. Finally, Donnay notes that the cultural and linguistic differences between the two regions are a further barrier to mobility.

#### Improving Wallonia's Economy

¶13. (U) In order to continue Wallonia's economic growth, the region must improve public governance, develop its human capital development, make its labor market more flexible, and release the region's entrepreneurial potential.

¶14. (U) Two years ago, the Walloon regional government announced a Marshall Plan for Wallonia, but this idea has not taken off. It is a one billion euro initiative to boost the Walloon economy. The key points of the Marshall Plan are to increase economic activity, grow competitive sectors of the economy, invest in job and language training, as well as in research and development, and reduce property taxes. Under the original Marshall Plan, the Walloon regional government invested 280 million euros in refurbishing smokestack industries that soon were overtaken by new plants in Germany and became uneconomic. Flanders, in contrast, invested in training, education, and subsidies for small and medium-sized businesses. Today in Flanders, 95% of private sector employment is with companies having 50 employees or less.

¶15. (U) Good public governance is essential to implementing successful reforms. Beset by Socialist Party scandals in the Walloon city of Charleroi, the entire city cabinet resigned from office in June. Donnay believes that developing a modern, efficient government administration, with less intervention in the economy, is the first step towards improving the Walloon economy.

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¶16. (U) Developing human capital requires a strong educational system, and Wallonia's is in need of improvement. For the past 20 years, roughly one-third of secondary school students have become unemployed adults. Walloon schools are doing a poor job preparing students for work: the Reading and Writing Association estimates that 300,000 adults are illiterate in Wallonia. The school system is also one of the most costly in Europe. Jean-Yves Huwart of Trends-Tendances urges schools to improve basic education by delaying the year in which they make their vocational choices. Donnay believes that the education system should be tied more closely to the labor market.

¶17. (U) Huwart also recommends improving the higher education system by forming one large University of Brussels-Wallonia (instead of many universities with similar programs), with universities in each town specializing in different subjects, similar to the public university system in many U.S. states. The universities would reach a critical mass of resources likely to improve research and teaching, and in turn, make the schools more attractive to employers. A 2004 OECD study comparing the educational performances between Flanders and Wallonia was very critical of that in the latter.

¶18. (U) Improvements should also be made in the labor market. There are no limits to unemployment compensation

and little labor mobility between Flanders and Wallonia. In addition, the difference between unemployment compensation and the salaries of unskilled workers is very small, discouraging employment. On the employer side, companies bear a lot of the social costs when they hire an employee and therefore, it is often very costly for them to hire unskilled labor. In addition, Wallonia's public employment service, the Forem, does a poor job of matching workers' skills to the needs of employers. It should develop better "skill mappings" with employers as well as create more sophisticated tests for job seekers so that they more accurately reflect the needs of employers.

¶19. (U) Finally, Wallonia needs to become more results-oriented, according to Huwart. Businesses should embrace globalization and seek out transcontinental markets for their goods. They should develop a more entrepreneurial spirit to take advantage of the opportunities offered by globalization.

¶20. (U) COMMENT: Wallonia has made some progress in moving away from its rust belt past. Foreign direct investment is flowing in but not at a level which brings its economic development up to a par with Flanders. In this globalized world, Wallonia is not merely competing for investment with Flanders but with the Singapores and Chinas and UKs of the world. Wallonia must continue to improve the training of its students at the same time that it reduces the incentives for unemployed workers to stay on the dole rather than seek work. END COMMENT  
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